GARRATT'S LIMITED

ABN 93 000 003 725

ANNUAL REPORT
2006

CHAIRMAN'S REPORT

Dear Shareholder

The consolidated loss from operations after income tax was $985,000 compared to a loss of $2,012,000 in the previous year. While this is still not satisfactory, there are signs that suggest that the Company may be recovering from the substantial write-downs that were made over the past few years.

The education business continued to improve considerably and recorded a small profit. Barring any adverse changes in the operating environment, the outlook for the education business is positive. The scheduled move to new premises custom-built for the provision of training and education services is expected to contribute to the growth of the education business.

Revenue from our fasteners business again declined, though at the lower percentage of 2%. While contribution increased by 33% on the previous year, $195,000 is not an adequate return on the investment that we have made in the fasteners business. The poor performance from fasteners is very disappointing.

Your Board continues to be of the view that the Company should specialise in the education business and in due course, steps are expected to be taken towards that end. As the fasteners business is a major asset, any such decision will be subject to the approval of shareholders. In the meantime, however, your Board believes that there is still scope to improve the productivity and contribution from the fasteners business. In this regard, management has been directed to make every effort to improve the contribution from the fasteners business.

Your directors have, separately, relevant interests in about 61% of all the shares in the Company. Parties related to certain directors also have advanced substantial funds to the Company in the form of loans and convertible notes, totalling about $2,100,000, on concessionary terms. Shareholders may therefore be assured that directors remain committed to the Company and are determined to bring it back to a dividend-paying status. We certainly hope to achieve this by 2008 - our centenary year.

I would like to thank all shareholders for their support and the management team for their loyalty and hard work.

Neville Thomas Cleary
Chairman
27 September 2006

GROUP MANAGING DIRECTOR'S REVIEW

The positive performance of the education business in the financial year ended 30 June 2006 was very satisfying to all staff who maintained their confidence in that business, notwithstanding the difficulties they had to cope with in the past few years.

Education revenue improved by 54% on the previous year. Student enrolments are now at an all-time high. We now have a number of arrangements and partnerships in place, in Australia and overseas, which we believe will further improve the contribution from the education business.

We have negotiated a long-term lease at a Sydney CBD location that we are confident will be more attractive to students, than our present premises. This location will also improve our ability to bring in new business, including from the corporate sector.

The fasteners business is a different challenge. Contributions for the past two financial years have been very disappointing. However, the decline may have been arrested and steps are being put in place to improve the business and its contribution.

I would like to thank our students, customers and business associates in Australia and overseas, for their continuing support. I would also like to record my appreciation to my colleagues and fellow directors for their loyalty, commitment and help during the year.

Christopher Elmore Campbell
Group Managing Director
27 September 2006

CORPORATE GOVERNANCE STATEMENT

At the date of this report, and throughout the year, the Board comprised three directors, namely, Neville Thomas Cleary (Chairman, Non-Executive), Christopher Elmore Campbell (Group Managing Director, Executive) and Chiang Meng Heng (Non-Executive).

The Board is committed to the highest standards of corporate governance and endorses the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ('BPR'). However, given the small size and composition of the Board, the small size of the Company and its activities, and its cost structures, it is neither reasonable nor practicable to comply with certain BPR or to increase the size of the Board at this time.

Board Composition

The skills, experience, expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the directors' report.

The name of the independent director of the company is:

Neville Thomas Cleary (Chairman)

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds:

- less than 10% of company shares are held by the director and any entity or individual directly or indirectly associated with the director;
- no sales are made to or purchases made from any entity or individual directly or indirectly associated with the director; and
- none of the director's income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the entity.

Independent directors have the right to seek independent professional advice in the furtherance of their duties as directors at the company's expense. Written approval must be obtained from the chairman prior to incurring any expense on behalf of the company.

Chiang Meng Heng and Christopher Elmore Campbell do not meet the BPR definition of independence because they are substantial shareholders, each with relevant interests in excess of 10%. Nevertheless, the Board believes that Chiang Meng Heng and Christopher Elmore Campbell can make, and do make, quality and independent judgments in the best interests of the Company. The Board cannot meet the BPR requirement that there be a majority of independent directors.

Nominations Committee

Except where a director is elected by shareholders, the Board determines the appointment of new directors. There is no Nominations Committee as such.

Trading Policy

The company has in place a share trading policy for Directors, key executives or any other employee who is likely to possess inside information. Shares are to be traded in accordance with the guidelines stipulated by the Corporations Act 2001 and the ASX Listing Rules.

Audit Committee

The names and qualifications of those appointed to the audit committee and their attendance at meetings of the committee are included in the directors' report.

During the year all the Directors were members of the Audit Committee. The Group Finance Manager and the external auditor also attend Audit Committee meetings.

The Audit Committee cannot meet the requirements that it be chaired by a director who is not the Chairman of the Company, that it consists only of non-executive directors, that it have a majority of independent directors and that it have at least three members.

Performance Evaluation

During the reporting period the Board reviewed its performance by assessing the results of the Company's operations and performance in the context of the Company's operating environment and the issues the Company faced.

Remunerations Policies

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director, senior executives and directors themselves. This role also includes responsibility for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefit policies and professional indemnity and liability insurance policies. Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executives. During the year all the Directors were members of the Remuneration Committee.

The directors and senior executives are all on fixed remuneration.

Remuneration Committee

The names of the members of the remuneration committee and their attendance at meetings of the committee are detailed in the directors' report.

There are no schemes for retirement benefits other than statutory superannuation for non-executive directors.

Other information

Information about the company's corporate governance practices and policies is available on the company's web site at www.garratts.com.au.

98th ANNUAL REPORT OF THE DIRECTORS

Your directors present their report on Garratt's Limited ("the Company") and its controlled entities for the financial year ended 30 June 2006.

DIRECTORS

The names of directors in office at any time during or since the end of the year are:

Neville Thomas Cleary
Christopher Elmore Campbell
Chiang Meng Heng

The directors have been in office since the start of the financial year to the date of this report.

COMPANY SECRETARY

Mr Ian Bloodworth held the position of company secretary at the end of the financial year. He was appointed company secretary on 27 August 2004. Mr Bloodworth is a member of the Institute of Chartered Accountants and holds a Bachelor of Business Degree. He has been the chief financial officer of the company since 2000.

PRINCIPAL ACTIVITIES

The principal activities of the economic entity during the course of the financial year were the provision of training and education services and the manufacture, import and sale of fasteners.

CONSOLIDATED RESULT

The consolidated loss from operations after income tax was $985,000 (2005: $2,012,000).

The result is after payment of interest and other borrowing costs of $442,000 (2005: $492,000).

Turnover increased by 12.9% to $9,697,000 over the previous year, attributable solely to the continuing improvement in the education business.

REVIEW AND RESULTS OF OPERATIONS

Education

The education business recorded a contribution of $53,000 compared to the previous year's loss of $601,000. Revenue improved by 54% to $3,487,000.

Unless there are any adverse changes in the operating environment, the outlook in regard to the contribution from education is positive.

Fasteners

The fasteners business contributed $195,000 (2005: $146,000).

Revenue declined by 2% while contribution improved by 33%. Steps have been put in place to improve the business and its contribution.

Thangathurai US Dollar Debt

The Company continues to pursue the recovery of this debt. Success, however, is not assured.

Keith Franklin Kennett, K. F. Kennett Nominees Pty Ltd and Myong Ho Pak

In August 2003, the Company was served summonses by Keith Franklin Kennett, K.F. Kennett Nominees Pty Ltd and Myong Ho Pak seeking relief from the contract entered into between the Company and those parties in August 2002. The Company continues to defend its position vigorously. The Company's solicitors are confident that the defence will be successful.

Dividend

No dividend has been declared for the financial year ended 30 June 2006.

Convertible Notes

In November 2005, shareholders approved the roll-over of loans to the Company from parties related to Chiang Meng Heng and Christopher Elmore Campbell of $1,400,000 and $280,000 (respectively) into 16,800,000 (unlisted, unsecured) convertible cotes.

The terms of the convertible notes are:

Maturity:	31 October 2010
Interest rate:	1% per annum
Conversion price:	10 cents per ordinary share

FINANCIAL POSITION

The net assets of the economic entity have increased by $648,000 since 30 June 2005. This arose as a result of the 16,800,000 convertible notes of 10 cents each that were issued during the period, which off set losses incurred. Directors draw your attention to note 1r for information about the Company's prospects.

STATE OF AFFAIRS

Apart from the substantial improvement in the operation of the education business, there were no significant changes in the state of affairs of the consolidated entity during the reporting period.

ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the Company's financial report has been prepared in accordance with those standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 2 to this report.

AFTER BALANCE DATE EVENTS

There are no matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Reference is made in the Chairman's Report (Page 1) and the Group Managing Director's Review (Page 2) to the economic entity's future direction. No detailed information in respect of the economic entity's corporate strategies has been included, as directors believe that the disclosure of such information would be prejudicial to the interests to shareholders.

ENVIRONMENTAL ISSUES

The economic entity is not subject to any significant environmental legislation.

INFORMATION ON DIRECTORS

Neville Thomas Cleary	- Chairman (Non-Executive), since 2001.
Qualifications/Experience	- Retired as a senior banker in 1992 after 43 years with the Commonwealth Bank of Australia.
Interest in Shares	- 160,000 shares (0.67%)
Special Responsibilities	- Chairman of the Audit and Remuneration Committees.
Directorships held in other listed entities	- None.
Christopher Elmore Campbell	- Group Managing Director, since 1996.
Qualifications/Experience	- B.Soc.Sci. (Hons). FFin, FAICD, FCIS. Previous positions include senior appointments with the Monetary Authority of Singapore and an international bank in Australia.
Interest in Shares	- 3,424,935 shares (14.00%)
Special Responsibilities	- Group Managing Director and Chief Executive Officer. Member of the Audit and Remuneration Committees. Chairman and Director of each of the subsidiary companies in the Garratt's Group.
Directorships held in other listed entities	- None.
Chiang Meng Heng	- Director (Non-Executive), since 2000.
Qualifications/Experience	- BBA (Hons). Previous positions include President, Asia Commercial Bank, Adviser & Department Head, Monetary Authority of Singapore, Managing Director, First Capital Corporation and Executive Director, Far East Organisation.
Interest in Shares	- 10,941,886 shares (45.99%)
Special Responsibilities	- Member of the Audit and Remuneration Committees.
Directorships held in other listed entities	- Jasper Investments Limited, Orchard Parade Holdings Limited, Thakral Corporation Limited, Macquarie International Infrastructure Fund Limited, and Keppel Land Limited (all listed on the Singapore Stock Exchange).

REMUNERATION REPORT

Remuneration Policies

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director, senior executives and directors themselves. This role also includes responsibility for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefit policies and professional indemnity and liability insurance policies. Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executives. During the year all the Directors were members of the Remuneration Committee.

The remuneration policy of the Company in respect of directors and senior executives is to ensure certainty of exposure of the Company to employees by agreeing a fixed salary for each director and senior executive.

All executives receive a base salary, which is based on factors such as length of service and experience and superannuation (as required by law). Executives may sacrifice part of their salary to increase payments towards superannuation.

There are no bonus or performance-related components to remuneration, or options over unissued capital. The Company does not have an employee share option plan.

All remuneration paid to directors and executives is valued at the cost to the company and expensed.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the economic entity.

Directors' and Executives' Remuneration

a. Directors and Specified Executives

The names of each person holding the position of director of Garratt's Limited at any time during the financial year were Neville Thomas Cleary (Chairman – Non-Executive), Chiang Meng Heng (Director – Non-executive) and Christopher Elmore Campbell (Group Managing Director – Executive). The names of each person holding the position of specified executive at any time during the financial year were Ivan James Mikkelsen (General Manager – Fasteners) and Ian David Bloodworth (Group Finance Manager and Group Company Secretary).

b. Directors' and Specified Executives' Remuneration

The remuneration for each director and each of the two specified executive officers of the consolidated entity receiving the highest remuneration during the year was as follows:

	Salary, Fees and Commissions	Super-annuation	Cash Bonus	Non-cash Benefits	Total
	$	$	$	$	$
Directors					
Christopher Elmore Campbell	235,000	65,000	-	-	300,000
Neville Thomas Cleary	35,000	3,150	-	-	38,150
Chiang Meng Heng	20,000	1,800	-	-	21,800
Specified Executives					
Ivan James Mikkelsen	197,599	17,784	-	-	215,383
Ian David Bloodworth	112,384	10,115	-	-	122,499

c. Options issued as part of remuneration for the year ended 30 June 2006

No options were granted as part of remuneration.

d. Employment contracts of executives

The employment conditions of all executives are formalised in written contracts of employment. Generally, the employment contracts stipulate a one-month resignation period. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time.

Except in certain exceptional circumstances, Mr. Ivan James Mikkelsen's contract may be terminated by either Mr. Mikkelsen or Premier Fasteners Pty Limited giving to the other six months' notice.

MEETINGS OF DIRECTORS

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year are:

Director	Directors' Meetings		Audit Committee		Remuneration Committee	
	A	B	A	B	A	B
Neville Thomas Cleary	6	6	2	2	1	1
Christopher Elmore Campbell	6	6	2	2	1	1
Chiang Meng Heng	6	6	2	2	1	1

A - Number of meetings held during the time the director held office during the period
B - Number of meetings attended

INDEMNIFICATION AND INSURANCE OF OFFICERS

The Company's Articles of Association provides an indemnity to officers of the Company. The Company is required to pay all costs, losses and expenses that an officer may incur by reason of any contract entered into or act or thing done by them in the discharge of their duties except where they act dishonestly.

The Company has also paid an insurance premium in respect of a directors and officers liability insurance policy covering the directors and officers liabilities as officers of the Company. It has also taken out "key man" insurance policies. The premium and nature of the liabilities covered by the policies are not to be disclosed under the terms of the policies.

OPTIONS

No options have been issued on the Company's shares.

PROCEEDINGS ON BEHALF OF THE COMPANY

Apart from the action by Keith Franklin Kennett, K.F. Kennett Nominees Pty Ltd and Myong Ho Pak referred to earlier, no person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose for taking responsibility on behalf of the Company for all or any part of these proceedings, and the Company was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Audit Committee.
- The nature of services provided do not compromise the general principles relating to audit independence.

The following fees were paid or payable for non audit services to the external auditors during the year ended 30 June 2006:

- Taxation services $11,700
- Due diligence $68,256

AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration for the year ended 30 June 2006 has been received and can be found on page 11.

Signed in accordance with a resolution of the Board of Directors.

Neville Cleary Director	Christopher Campbell Director

Dated this 27th day of September 2006

CALABRO PARTNERS
CHARTERED ACCOUNTANTS

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF GARRATTS LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Calabro Partners.

CALABRO PARTNERS GARTH BARRETT

28 September 2006
Level 5, 175 Eagle Street
Brisbane, Queensland 4000

GARRATT'S LIMITED
AND CONTROLLED ENTITIES
INCOME STATEMENT
For the year ended 30 June 2006

		ECONOMIC ENTITY		PARENT ENTITY	
	Note	2006 $	2005 $	2006 $	2005 $
Revenue	3	**9,697,403**	8,591,256	**1,113,984**	1,627,423
Depreciation and amortisation expense		**(274,874)**	(275,445)	**(1,253)**	(1,863)
Cost of sales	4	**(3,652,258)**	(3,437,321)	**-**	-
Cost of services		**(1,596,327)**	(1,223,092)	**-**	-
Employee benefits expense		**(2,312,917)**	(2,428,056)	**(539,357)**	(451,333)
Finance costs	4	**(441,984)**	(491,511)	**(366,866)**	(456,184)
Impairment of Goodwill	4	**-**	(190,853)	**-**	-
Insurance		**(234,438)**	(238,281)	**(67,495)**	(57,543)
Lease rental expense – operating leases	4	**(1,034,363)**	(958,871)	**(7,534)**	(27,285)
Legal expenses		**(71,595)**	(303,315)	**(69,875)**	(280,251)
Non-executive directors fees		**(59,950)**	(59,950)	**(59,950)**	(59,950)
Payroll tax		**(124,763)**	(132,126)	**(21,568)**	(24,429)
Other expenses		**(878,906)**	(864,798)	**(99,440)**	(170,089)
Profit/(loss) before exceptional items and income tax expense		**(984,972)**	(2,012,363)	**(119,354)**	98,496
Loss from exceptional items before related income tax benefit	5	**-**	-	**-**	(7,811,315)
Loss before income tax expense		**(984,972)**	(2,012,363)	**(119,354)**	(7,712,819)
Income tax expense	6	**-**	-	**-**	-
Loss for the year		**(984,972)**	(2,012,363)	**(119,354)**	(7,712,819)
Loss attributable to members of the parent entity		**(984,972)**	(2,012,363)	**(119,354)**	(7,712,819)
Basic earnings/(loss) per share (cents per share)	9	**(4.1)**	(9.8)		
Fully diluted earnings/(loss) per share (cents per share)	9	**(2.7)**	-		
Dividends per share (cents)	10	**-**	-		

The accompanying notes form part of these financial statements.

GARRATT'S LIMITED
AND CONTROLLED ENTITIES
BALANCE SHEET
As at 30 June 2006

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Current Assets					
Cash and cash equivalents	11	**298,462**	46,362	**146,713**	1,136
Trade and other receivables	12	**1,517,330**	1,334,048	**-**	34,564
Inventories	13	**2,333,706**	3,184,589	**-**	-
Other current assets	14	**494,830**	191,167	**49,225**	45,816
Total Current Assets		**4,644,328**	4,756,166	**195,938**	81,516
Non-Current Assets					
Financial assets	15	**-**	-	**4,000,004**	4,000,004
Plant and equipment	17	**883,342**	1,067,754	**49,789**	2,786
Deferred tax assets	18	**-**	-	**-**	-
Intangible assets	19	**2,905,859**	2,860,859	**-**	-
Total Non-Current Assets		**3,789,201**	3,928,613	**4,049,793**	4,002,790
Total Assets		**8,433,529**	8,684,779	**4,245,731**	4,084,306
Current Liabilities					
Trade and other payables	20	**2,858,037**	2,372,171	**532,197**	338,961
Short-term borrowings	21	**3,844,794**	3,675,696	**1,867,028**	1,854,506
Short-term provisions	22	**239,605**	174,862	**159,266**	120,245
Total Current Liabilities		**6,942,436**	6,222,729	**2,558,491**	2,313,712
Non-Current Liabilities					
Long-term borrowings	21	**101,784**	1,768,558	**47,211**	1,680,000
Long-term provisions	22	**48,000**	-	**36,000**	-
Total Non-Current Liabilities		**149,784**	1,768,558	**83,211**	1,680,000
Total Liabilities		**7,092,220**	7,991,287	**2,641,702**	3,993,712
Net Assets		**1,341,309**	693,492	**1,604,029**	90,594
Equity					
Issued capital	23	**14,172,625**	12,539,836	**14,172,625**	12,539,836
Accumulated Losses		**(12,831,316)**	(11,846,344)	**(12,568,596)**	(12,449,242)
Total Equity		**1,341,309**	693,492	**1,604,029**	90,594

The accompanying notes form part of these financial statements.

GARRATT'S LIMITED
AND CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY
As at 30 June 2006

	Note	Ordinary Shares $	Retained Profits $	Total $
Economic Entity				
Balance at 1.7.2004		10,811,895	(9,833,981)	977,914
Shares issued during the period	23	1,727,941	-	1,727,941
Profit attributable to members of parent entity		-	(2,012,363)	(2,012,363)
Balance at 30.6.2005		12,539,836	(11,846,344)	693,492
Balance at 1.7.2005		12,539,836	(11,846,344)	693,492
Equity component of convertible notes issued during the period	23	1,632,789	-	1,632,789
Profit attributable to members of parent entity		-	(984,972)	(984,972)
Balance at 30.6.2006		14,172,625	(12,831,316)	1,341,309
Parent Entity				
Balance at 1.7.2004		10,811,895	(4,736,423)	6,075,472
Shares issued during the period	23	1,727,941	-	1,727,941
Profit attributable to members of parent entity		-	(7,712,819)	(7,712,819)
Balance at 30.6.2005		12,539,836	(12,449,242)	90,594
Balance at 1.7.2005		12,539,836	(12,449,242)	90,594
Equity component of convertible notes issued during the period	23	1,632,789	-	1,632,789
Profit attributable to members of parent entity		-	(119,354)	(119,354)
Balance at 30.6.2006		14,172,625	(12,568,596)	1,604,029

The accompanying notes form part of these financial statements.

GARRATT'S LIMITED
AND CONTROLLED ENTITIES
CASH FLOW STATEMENT
For the year ended 30 June 2006

	Note	ECONOMIC ENTITY		PARENT ENTITY	
		2006	2005	2006	2005
		$	$	$	$
Cash Flows from Operating Activities					
Receipts from customers		**10,643,980**	9,761,999	**934,672**	778,438
Payments to suppliers and employees		**(9,937,812)**	(10,350,162)	**(665,665)**	(940,272)
Interest received		**2,640**	4,199	**117**	1,705
Finance costs		**(444,675)**	(476,274)	**(369,557)**	(456,184)
Net cash provided by (used in) operating activities	27a	**264,133**	(1,060,238)	**(100,433)**	(616,313)
Cash Flows from Investing Activities					
Proceeds from sale of plant & equipment		**2,800**	500	**-**	-
Purchase of plant & equipment		**(63,910)**	(29,893)	**(48,256)**	(1,081)
Purchase of other non-current assets		**(45,000)**	-	**-**	-
Loans repaid (advanced)		**-**	-	**27,072**	(113,099)
Net cash provided by (used in) investing activities		**(106,110)**	(29,393)	**(21,184)**	(114,180)
Cash Flows from Financing Activities					
Proceeds from borrowings		**383,844**	435,958	**436,308**	90,000
Repayment of borrowings		**(289,767)**	(501,760)	**(169,114)**	(452,877)
Proceeds from issue of shares		**-**	1,028,341	**-**	1,028,341
Net cash provided by (used in) financing activities		**94,077**	962,539	**267,194**	665,464
Net increase (decrease) in cash held		**252,100**	(127,092)	**145,577**	(65,029)
Cash at the beginning of the financial year		**46,362**	173,454	**1,136**	66,165
Cash at the end of the financial year	11	**298,462**	46,362	**146,713**	1,136

The accompanying notes form part of these financial statements.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Garratt's Limited and controlled entities, and Garratt's Limited as an individual parent entity. Garratt's Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Garratt's Limited and controlled entities, and Garratt's Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

Garratt's Limited and controlled entities, and Garratt's Limited as an individual parent entity have prepared financial statements in accordance with the AIFRS from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Garratt's Limited to be prepared in accordance with AIFRS.

The accounting policies set out below have been consistently applied to all years presented.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

a. Principles of Consolidation

A controlled entity is any entity Garratt's Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 16 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

No deferred tax assets have been recognized in these financial statements, as recovery of the benefits was not considered probable.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Garratt's Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 1 July 2003. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

c. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

Where the book value of stock items exceeds the net realisable value, a provision for diminution in value is raised.

d. Plant and Equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including capitalised lease assets is depreciated on a straight-line or a diminishing value basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Leasehold improvements	12.5 – 22.5%
Plant and equipment	7.5 – 40%
Leased plant and equipment	5 – 25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

e. Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the economic entity, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

f. Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

g. Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

h. Intangibles - Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

i. Foreign Currency Transactions and Balances

Foreign currency transactions are translated into Australian currency (the functional currency) using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

j. Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

k. Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of one month or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

m. Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

n. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

o. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

p. Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

q. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Going Concern

These financial statements have been prepared adopting the going concern assumption, which contemplates the orderly realisation of assets and payment of liabilities in the ordinary course of business.

The appropriateness of this assumption is dependent upon:

- The continued support of the Company's bankers.
- The ability of the Group to return to profitable trading.
- The ability of the Company to generate additional sources of funding.

The Board is currently satisfied that these issues have been addressed and that there are reasonable grounds to assume that the Company will meet its future financial obligations as and when they fall due.

Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates - Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. No impairment has been recognised in respect of goodwill for the year ended 30 June 2006.

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Economic Entity	Note	Previous GAAP at 1 July 2004	Effect of Transition to AIFRS	AIFRS at 1 July 2004
Reconciliation of Equity at 1 July 2004		$	$	$
Current Assets				
Cash and cash equivalents		173,454	-	173,454
Trade and other receivables		1,362,024	-	1,362,024
Inventories		2,643,141	-	2,643,141
Other current assets		213,711	-	213,711
Total Current Assets		4,392,330	-	4,392,330
Non-Current Assets				
Plant and equipment	2a	1,266,905	(6,008)	1,260,897
Intangible assets	2a,b	3,082,023	(30,312)	3,051,711
Other non-current assets	2c	661,912	(661,912)	-
Total Non-Current Assets		5,010,840	(698,232)	4,312,608
Total Assets		9,403,170	(698,232)	8,704,938
Current Liabilities				
Trade and other payables	2d	1,342,204	144,796	1,487,000
Short-term borrowings		3,982,682	-	3,982,682
Short-term provisions		161,309	-	161,309
Total Current Liabilities		5,486,195	144,796	5,630,991
Non-Current Liabilities				
Long-term borrowings		2,096,033	-	2,096,033
Total Non-Current Liabilities		2,096,033	-	2,096,033
Total Liabilities		7,582,228	144,796	7,727,024
NET ASSETS		1,820,942	(843,028)	977,914
EQUITY				
Issued capital		10,811,895	-	10,811,895
Retained earnings		(8,990,953)	(843,028)	(9,833,981)
TOTAL EQUITY		1,820,942	(843,028)	977,914

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Economic Entity **Reconciliation of Equity at 30 June 2005**	Note	Previous GAAP at 30 June 2005 $	Effect of Transition to AIFRS $	AIFRS at 30 June 2005 $
Current Assets				
Cash and cash equivalents		46,362	-	46,362
Trade and other receivables		1,334,048	-	1,334,048
Inventories		3,184,589	-	3,184,589
Other current assets		191,167	-	191,167
Total Current Assets		4,756,166	-	4,756,166
Non-Current Assets				
Plant and equipment	2a	1,070,844	(3,090)	1,067,754
Intangible assets	2a,b	2,889,671	(28,812)	2,860,859
Other non-current assets	2c	330,956	(330,956)	-
Total Non-Current Assets		4,291,471	(362,858)	3,928,613
Total Assets		9,047,637	(362,858)	8,684,779
Current Liabilities				
Trade and other payables	2d	1,962,831	409,340	2,372,171
Short-term borrowings		3,675,696	-	3,675,696
Short-term provisions		174,862	-	174,862
Total Current Liabilities		5,813,389	409,340	6,222,729
Non-Current Liabilities				
Long-term borrowings		1,768,558	-	1,768,558
Total Non-Current Liabilities		1,768,558	-	1,768,558
Total Liabilities		7,581,947	409,340	7,991,287
NET ASSETS		1,465,690	(772,198)	693,492
EQUITY				
Issued capital		12,539,836	-	12,539,836
Retained earnings		(11,074,146)	(772,198)	(11,846,344)
TOTAL EQUITY		1,465,690	(772,198)	693,492

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Parent Entity **Reconciliation of Equity at 1 July 2004**	Previous GAAP at 1 July 2004 $	Effect of Transition to AIFRS $	AIFRS at 1 July 2004 $
Current Assets			
Cash and cash equivalents	66,165	-	66,165
Trade and other receivables	305,937	-	305,937
Other current assets	89,390	-	89,390
Total Current Assets	461,492	-	461,492
Non-Current Assets			
Trade and other receivables	7,578,006	-	7,578,006
Financial assets	3,000,006	-	3,000,006
Plant and equipment	3,568	-	3,568
Total Non-Current Assets	10,581,580	-	10,581,580
Total Assets	11,043,072	-	11,043,072
Current Liabilities			
Trade and other payables	328,434	-	328,434
Short-term borrowings	2,530,202	-	2,530,202
Short-term provisions	119,850	-	119,850
Total Current Liabilities	2,978,486	-	2,978,486
Non-Current Liabilities			
Long-term borrowings	1,989,114	-	1,989,114
Total Non-Current Liabilities	1,989,114	-	1,989,114
Total Liabilities	4,967,600	-	4,967,600
NET ASSETS	6,075,472	-	6,075,472
EQUITY			
Issued capital	10,811,895	-	10,811,895
Retained earnings	(4,736,423)	-	(4,736,423)
TOTAL EQUITY	6,075,472	-	6,075,472

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Parent Entity **Reconciliation of Equity at 30 June 2005**	Previous GAAP at 30 June 2005 $	Effect of Transition to AIFRS $	AIFRS at 30 June 2005 $
Current Assets			
Cash and cash equivalents	1,136	-	1,136
Trade and other receivables	34,564	-	34,564
Other current assets	45,816	-	45,816
Total Current Assets	81,516	-	81,516
Non-Current Assets			
Financial assets	4,000,004	-	4,000,004
Plant and equipment	2,786	-	2,786
Total Non-Current Assets	4,002,790	-	4,002,790
Total Assets	4,084,306	-	4,084,306
Current Liabilities			
Trade and other payables	338,961	-	338,961
Short-term borrowings	1,854,506	-	1,854,506
Short-term provisions	120,245	-	120,245
Total Current Liabilities	2,313,712	-	2,313,712
Non-Current Liabilities			
Long-term borrowings	1,680,000	-	1,680,000
Total Non-Current Liabilities	1,680,000	-	1,680,000
Total Liabilities	3,993,712	-	3,993,712
NET ASSETS	90,594	-	90,594
EQUITY			
Issued capital	12,539,836	-	12,539,836
Retained earnings	(12,449,242)	-	(12,449,242)
TOTAL EQUITY	90,594	-	90,594

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliation of Profit or Loss for 2005	Note	Previous GAAP 2005 $	Effect of Transition to AIFRS 2005 $	AIFRS 2005 $
Economic Entity				
Revenue	2d	8,699,190	(107,934)	8,591,256
Finance costs		(491,511)		(491,511)
Deferred infrastructure costs expensed	2c	(330,956)	330,956	-
Depreciation and amortisation expense	2a,b	(470,716)	4,418	(466,298)
Cost of sales	2e	(3,280,711)	(156,610)	(3,437,321)
Cost of services		(1,223,092)	-	(1,223,092)
Employee benefits expense		(2,428,056)	-	(2,428,056)
Insurance		(238,281)	-	(238,281)
Lease rental expense – operating leases		(958,871)	-	(958,871)
Legal fees		(303,315)	-	(303,315)
Other expenses		(1,056,874)	-	(1,056,874)
Profit/(loss) before income tax		(2,083,193)	70,830	(2,012,363)
Income tax expense		-	-	-
Profit/(loss) for the year		(2,083,193)	70,830	(2,012,363)
Profit attributable to members of the parent entity		(2,083,193)	70,830	(2,012,363)
Parent Entity				
Revenue		1,627,423	-	1,627,423
Finance costs		(456,184)	-	(456,184)
Depreciation and amortisation expense		(1,863)	-	(1,863)
Employee benefits expense		(451,333)	-	(451,333)
Insurance		(57,543)	-	(57,543)
Lease rental expense – operating leases		(27,285)	-	(27,285)
Legal fees		(280,251)	-	(280,251)
Other expenses		(254,468)	-	(254,468)
Profit before exceptional items and income tax expense		98,496	-	98,496
Loss from exceptional items before related income tax benefit		(7,811,315)	-	(7,811,315)
Profit/(loss) before income tax		(7,712,819)	-	(7,712,819)
Income tax expense		-	-	-
Profit/(loss) for the year		(7,712,819)	-	(7,712,819)
Profit attributable to members of the parent entity		(7,712,819)	-	(7,712,819)

2. FIRST-TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Notes to the reconciliations of Equity and Profit and Loss at 1 July 2004 and 30 June 2005

(a) Under AASB 138 *Intangible Assets*, curriculum assets previously capitalised into property, plant and equipment is no longer recognised as an asset. As at 1 July 2004 the written down value of these items of $6,008 has been reversed against retained earnings at 1 July 2004. Depreciation of $2,918 to 30 June 2005 in relation to these assets has been reversed. Formation expenses of $6,820 have been reversed against retained earnings at 1 July 2004.

(b) Under AASB 3, goodwill is no longer amortised but subject to annual impairment testing. All goodwill amortised under previous GAAP has been reversed. Goodwill amounting to $190,853 has been reversed to retained earnings at 1 July 2004. Goodwill amounting to $190,853 previously amortised in the 2005 full financial year has been reversed in the income statement for the year ended 30 June 2005. However, impairment testing at 30 June 2004 and 30 June 2005 revealed no impairment of the net goodwill at those dates. Accordingly, an impairment loss has been recorded equal to the amortization in each of these periods.

(c) Under AASB 138 *Intangible Assets*, deferred infrastructure expenditure is no longer recognised as an asset. As at 1 July 2004 the written down value of these items of $661,912 has been reversed against retained earnings at 1 July 2004. Amortisation of $330,956 to 30 June 2005 in relation to these assets has been reversed.

(d) Under AASB 118 *Revenue*, revenue from tuition is to be recognised over the period of instruction. Revenue of $144,796 has been reversed to retained earnings at 1 July 2004. Revenue of $107,934 to 30 June 2005 has been reversed.

(e) Under AASB 108 *Accounting Policies, Changes in Estimates and Errors* changes in accounting estimates relating to past periods are to be made at the date of transition where there is objective evidence that estimates were mistakenly determined. Accrued charges of $156,610 have been adjusted to retained earnings at 30 June 2005.

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
3. REVENUE					
Operating activities					
- Sale of goods		**6,206,359**	6,324,873	**-**	-
- Services revenue	2a	**3,195,288**	2,239,986	**934,672**	778,438
- Interest received	2b	**2,640**	4,199	**178,968**	848,985
- Other revenue		**71,579**	22,198	**344**	-
- Rental revenue		**221,537**	-	**-**	-
Total Revenue		**9,697,403**	8,591,256	**1,113,984**	1,627,423
a. Services revenue from:					
- Wholly-owned controlled entities		**-**	-	**934,672**	778,438
- Other persons		**3,195,288**	2,347,920	**-**	-
		3,195,288	2,347,920	**934,672**	778,438
b. Interest revenue from:					
- Wholly-owned controlled entities		**-**	-	**178,851**	847,280
- Other persons		**2,640**	4,199	**117**	1,705
		2,640	4,199	**178,968**	848,985
4. PROFIT FOR THE YEAR					
Expenses					
Cost of sales		**3,652,258**	3,437,321	**-**	-
Finance costs					
- External		**381,881**	334,631	**306,763**	299,304
- Directors and Director related entities		**60,103**	156,880	**60,103**	156,880
		441,984	491,511	**366,866**	456,184
Impairment of goodwill		**-**	190,853	**-**	-
Bad and doubtful debts					
- Trade receivables		**4,565**	-	**-**	-
- Wholly-owned subsidiaries		**-**	-	**-**	7,811,315
		4,565	-	**-**	7,811,315
Rental expense on operating leases					
- Minimum lease payments		**849,174**	949,140	**7,534**	27,285
- Contingent rentals		**21,625**	9,731	**-**	-
- Rental expense for sublease		**163,564**	-	**-**	-
		1,034,363	958,871	**7,534**	27,285
5. EXCEPTIONAL ITEMS					
Loans to subsidiaries forgiven		**-**	-	**-**	(7,811,315)

6. INCOME TAX EXPENSE

	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
a. The components of tax expense comprise:				
Current tax	**-**	-	**-**	-
Deferred Tax	**-**	-	**-**	-
	-	-	**-**	-
b. The prima facie tax on profit/(loss) from ordinary activities before tax is reconciled to income tax as follows:				
Prima facie tax payable/(benefit) on profit/(loss) from ordinary activities before tax at 30%	**(295,492)**	(603,709)	**(35,806)**	(2,313,846)
Add:				
Tax effect of:				
Write-downs to recoverable amounts	**-**	57,706	**-**	-
Debts forgiven to wholly owned controlled entities	**-**	-	**-**	2,343,395
Other items	**1,609**	2,438	**1,400**	477
Future income tax benefit written back due to tax losses	**294,636**	548,042	**44,464**	12,701
	753	4,477	**10,058**	42,727
Less:				
Tax effect of:				
Tax benefit of losses transferred from controlled entities	**-**	-	**(10,058)**	(42,727)
Other items	**(753)**	(4,477)	**-**	-
Income tax expense/(benefit) attributable to the entity	**-**	-	**-**	-

7. KEY MANAGEMENT PERSONNEL COMPENSATION

a. Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:

Key Management Person	Position
Christopher Elmore Campbell	Group Managing Director
Ian David Bloodworth	Group Finance Manager and Group Company Secretary
Ivan James Mikkelsen	General Manager – Fasteners

b. Compensation Practices

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director, senior executives and directors themselves. This role also includes responsibility for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefit policies and professional indemnity and liability insurance policies. Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executives. During the year all the Directors were members of the Remuneration Committee.

7. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

The remuneration policy of the Company in respect of directors and senior executives is to ensure certainty of exposure of the Company to employees by agreeing a fixed salary for each director and senior executive.

All executives receive a base salary which is based on factors such as length of service and experience) and superannuation (as required by law). Executives may sacrifice part of their salary to increase payments towards superannuation.

There are no bonus or performance-related components to remuneration, or options over unissued capital. The Company does not have an employee share option plan.

All remuneration paid to directors and executives is valued at the cost to the company and expensed.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the economic entity.

c. Key Management Personnel Compensation

2006

Key Management Person	Short-term Benefits			Post-employment Benefits
	Cash, salary and commissions	Cash profit share	Non-cash benefit	Super-annuation
	$	$	$	$
Christopher Elmore Campbell	235,000	-	-	65,000
Ian David Bloodworth	112,384	-	-	10,115
Ivan James Mikkelsen	197,599	-	-	17,784
	544,983	-	-	92,899

Key Management Person	Other Long-term Benefits	Share-based Payment Equity	Share-based Payment Options	Total	Performance Related
	$	$	$	$	%
Christopher Elmore Campbell	-	-	-	300,000	-
Ian David Bloodworth	-	-	-	122,499	-
Ivan James Mikkelsen	-	-	-	215,383	-
	-	-	-	637,882	-

7. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

2005

Key Management Person	Short-term Benefits			Post-employment Benefits
	Cash, salary and commissions	Cash profit share	Non-cash benefit	Superannuation
	$	$	$	$
Christopher Elmore Campbell	235,000	-	-	21,150
Ian David Bloodworth	110,033	-	-	9,903
Ivan James Mikkelsen	197,600	-	-	16,514
	542,633	-	-	47,567

Key Management Person	Other Long-term Benefits	Share-based Payment Equity	Share-based Payment Options	Total	Performance Related
	$	$	$	$	%
Christopher Elmore Campbell	-	-	-	256,150	-
Ian David Bloodworth	-	-	-	119,936	-
Ivan James Mikkelsen	-	-	-	214,114	-
	-	-	-	590,200	-

d. **Compensation Options**

No options were granted as compensation during the year. No employment contracts include provision for the issue of compensation options in the future.

e. **Shares Issued on Exercise of Compensation Options**

No shares were issued on the exercise of compensation options during the year.

f. **Options and Rights Holdings**

No options were held by key management personnel during the year.

g. **Convertible Note Holdings**

Number of convertible notes held by key management personnel and parties related to them.

7. KEY MANAGEMENT PERSONNEL COMPENSATION (continued)

Key Management Person	Balance 1.7.2005	Granted as Compen-sation	Net Change Other (i)	Balance 30.6.2006
Christopher Elmore Campbell	-	-	2,800,000	2,800,000

(i) Refer to note 23b.

h. **Shareholdings**

Number of shares held by key management personnel and parties related to them

Key Management Person	Balance 1.7.2005	Received as Compen-sation	Options Exercised	Net Change Other (i)	Balance 30.6.2006
Christopher Elmore Campbell	3,227,440	-	-	96,695	3,324,135

(i) Shares purchased via the Australian Stock Exchange.

	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
8. AUDITOR'S REMUNERATION				
Remuneration of the auditor of the parent entity for:				
- Auditing and reviewing the financial report	**50,781**	40,084	**25.781**	13,000
- Taxation services	**11,700**	16,000	**3,600**	5,000
- Other services	**68,256**	-	**48,256**	-
	130,737	56,084	**77,637**	18,000

9. EARNINGS PER SHARE

	2006	2005
Weighted average number of ordinary shares used in calculation of basic earnings per share	**23,790,562**	20,596,761
Weighted average number of convertible notes on issue	**12,289,315**	-
Weighted average number of ordinary shares used in calculation of diluted earnings per share	**36,079,877**	20,596,761

	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$

10. DIVIDENDS

Dividends paid	**-**	-	**-**	-
Franking credits available at year end	**173,473**	173,473	**10,662**	10,662

11. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	**298,462**	46,362	**146,713**	1,136

12. TRADE AND OTHER RECEIVABLES

CURRENT				
Trade receivables	**1,527,572**	1,255,939	**-**	-
Provision for impairments of receivables	**(25,000)**	(20,435)	**-**	-
	1,502,572	1,235,504	**-**	-
Other receivables	**1,183**	82,644	**-**	7,492
Government grants receivable	**13,575**	15,900	**-**	-
Amounts receivable from wholly-owned subsidiaries	**-**	-	**-**	27,072
	1,517,330	1,334,048	**-**	34,564

13. INVENTORIES

CURRENT				
At cost				
Raw materials and stores	**293,630**	563,940	**-**	-
Work in progress	**5,870**	26,829	**-**	-
Finished goods	**2,034,206**	2,593,820	**-**	-
	2,333,706	3,184,589	**-**	-

14. OTHER ASSETS

CURRENT				
Prepayments	**494,050**	190,387	**49,225**	45,816
Security Deposits	**780**	780	**-**	-
	494,830	191,167	**49,225**	45,816

15. FINANCIAL ASSETS

	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
NON-CURRENT				
Shares in controlled entities				
Unlisted				
Academies Australasia Pty Limited (at cost) Principal activity is training and education services	**-**	-	**1,000,000**	1,000,000
Premier Fasteners Pty Limited (at cost) Principal activity is manufacture, import and sale of fasteners	**-**	-	**3,000,002**	3,000,002
Skilled Placements Pty Limited (at cost) (formerly Multimedia Investments Pty Limited) Company is dormant	**-**	-	**2**	2
Investment at cost	**-**	-	**4,000,004**	4,000,004

16. CONTROLLED ENTITIES

	Country of Incorporation	Percentage Owned (%) 2006	2005
Parent Entity - Garratt's Limited			
Ultimate Parent Entity - Garratt's Limited			
Academies Australasia Pty Limited	Australia	100	100
Premier Fasteners Pty Limited	Australia	100	100
Skilled Placements Pty Limited (formerly Multimedia Investments Pty Limited)	Australia	100	100
Parent Entity - Academies Australasia Pty Limited			
Ultimate Parent Entity - Garratt's Limited			
Academies Australasia (Management) Pty Limited	Australia	100	100
Academy of English Pty Limited	Australia	100	100
Academy of Social Sciences Pty Limited	Australia	100	100
Australian Institute of Professional Studies Pty Limited	Australia	100	100
Australian International High School Pty Limited	Australia	100	100
Australian College of Technology Pty Limited	Australia	100	100
Clarendon Business College Pty Limited	Australia	100	100
Supreme Business College Pty Limited	Australia	100	100

Percentage of voting power is in proportion to ownership
No controlled entities were acquired or disposed of during the year.

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $

17. PLANT AND EQUIPMENT

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Plant and equipment					
At cost		**2,442,091**	2,381,108	**65,348**	17,092
Accumulated depreciation		**(1,799,668)**	(1,574,168)	**(16,310)**	(15,433)
		642,423	806,940	**49,038**	1,659
Leasehold improvements					
At cost		**66,006**	66,006	**8,465**	8,465
Accumulated amortisation		**(57,965)**	(52,545)	**(7,714)**	(7,338)
		8,042	13,461	**751**	1,127
Leased plant and equipment					
Capitalised leased assets		**288.418**	293,714	**-**	-
Accumulated depreciation		**55,541**	46,361	**-**	-
		232,877	247,353	**-**	-
Total plant & equipment		**883,342**	1,067,754	**49,789**	2,786

a. Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

	Plant and equipment $	Leasehold improve-ments $	Leased plant and equipment $	Total $
Economic entity:				
Balance at the beginning of the year	**806,940**	**13,461**	**247,353**	**1,067,754**
Additions	**63,910**	**-**	**29,400**	**93,310**
Previously leased	**18,097**	**-**	**(18,097)**	**-**
Disposals	**(2,848)**	**-**	**-**	**(2,848)**
Depreciation expense	**(243,676)**	**(5,419)**	**(25,779)**	**(274,874)**
Carrying amount at the end of the year	**642,423**	**8,042**	**232,877**	**883,342**
Parent entity:				
Balance at the beginning of the year	1,659	1,127	-	2,786
Additions	48,256	-	-	48,256
Disposals	-	-	-	-
Depreciation expense	(877)	(376)	-	(1,253)
Carrying amount at the end of the year	49,038	751	-	49,789

18. TAX

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1b occur					
- temporary differences:					
Deferred tax assets		**702,955**	400,428	**127,331**	82,866
Deferred tax liabilities		**(78,995)**	(164,123)	**-**	-
- tax losses:					
Operating losses		**2,077,648**	1,951,380	**-**	-
Capital losses		**4,991**	4,991	**-**	-
	25	**2,706,599**	2,192,676	**127,331**	82,866

	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$

19. INTANGIBLE ASSETS

	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Goodwill at cost	**3,287,102**	3,242,102	**-**	-
Accumulated impairment losses	**(381,913)**	(381,913)	**-**	-
Net carrying value	**2,905,189**	2,860,189	**-**	-
Other at cost	**670**	670	**-**	-
	2,905,859	2,860,859	**-**	-

	Goodwill $	Other $	Total $
Economic entity:			
Year ended 30 June 2006			
Balance at the beginning of the year	**2,860,189**	**670**	**2,860,859**
Additions	**45,000**	**-**	**45,000**
Disposals	**-**	**-**	**-**
Impairment losses	**-**	**-**	**-**
Carrying amount at the end of the year	**2,905,189**	**-**	**2,905,859**
Economic entity:			
Year ended 30 June 2005			
Balance at the beginning of the year	3,051,041	670	3,051,711
Additions	-	-	-
Disposals	-	-	-
Impairment losses	190,852	-	190,852
Carrying amount at the end of the year	2,860,189	670	2,860,859

Impairment Disclosures
Goodwill is allocated to cash-generating units, based on the group's reporting segments.

	2006 **$**	2005 $
Fasteners segment	**1,375,382**	1,330,382
Education segment	**1,529,807**	1,529,807
Total	**2,905,189**	2,860,189

The recoverable amount of each cash-generating unit is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5 year period. The cash flows are discounted using a rate adjusted for the risk inherent in the business of the segment.

The following assumptions were used in the value-in-use calculations:

	Growth Rate	Discount Rate
Fasteners segment	16.5%	12%
Education segment	13.5%	12%

Management has based the value-in-use calculations on budgets for each reporting segment. These budgets use management estimates based on historical growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated inflation rates. Discount rates are pre-tax.

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $

20. TRADE AND OTHER PAYABLES

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
CURRENT					
Unsecured Liabilities					
Trade payables	20a	**1,908,718**	1,633,383	**-**	-
Sundry payables and accrued expenses		**949,319**	738,788	**444,740**	338,961
Amounts payable to wholly-owned subsidiaries		**-**	-	**87,457**	-
		2,858,037	2,372,171	**532,197**	338,961

a. Includes $1,312,580 (2005: $775,294) tuition fees paid in advance by college students.

21. BORROWINGS

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
CURRENT					
Unsecured Liabilities					
Loans - Directors and Director related entities	29	**427,028**	245,392	**427,028**	245,392
Secured Liabilities					
Bank bills	21a	**1,300,000**	1,300,000	**1,300,000**	1,300,000
Bank loans	21a	**1,913,570**	1,745,460	**-**	-
Lease purchase agreements	21a	**64,196**	75,730	**-**	-
Loans – other	21a	**140,000**	309,114	**140,000**	309,114
		3,417,766	3,430,304	**1,440,000**	1,609,114
		3,844,794	3,675,696	**1,867,028**	1,854,506
NON-CURRENT					
Unsecured Liabilities					
Convertible notes	30	**47,211**	-	**47,211**	-
Secured Liabilities					
Lease purchase agreements	21a	**54,573**	88,558	**-**	-
Loans - Directors and Director related entities	21a, 29	**-**	1,680,000	**-**	1,680,000
		54,573	1,768,558	**-**	1,680,000
		101,784	1,768,558	**47,211**	1,680,000

a. Total current and non-current secured liabilities:

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Bank bills	30	**1,300,000**	1,300,000	**1,300,000**	1,300,000
Bank loans	30	**1,913,570**	1,745,460	**-**	-
Lease purchase agreements	24, 30	**118,769**	164,288	**-**	-
Loans - other	30	**140,000**	309,114	**140,000**	309,114
Loans - Directors and Director related entities	30	**-**	1,680,000	**-**	1,680,000
		3,472,339	5,198,862	**1,440,000**	3,289,114

b. The carrying amounts of non-current assets pledged as security are:

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Floating charge over assets		**3,556,324**	3,681,260	**4,049,793**	4,002,790
Plant and equipment		**232,877**	247,353	**-**	-
		3,789,201	3,928,613	**4,049,793**	4,002,790

	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$

21. BORROWINGS (continued)

c. The bank facilities of the parent entity and subsidiaries are secured by a floating charge over the assets of the economic entity.

d. The debtors finance facility of Premier Fasteners Pty Limited is additionally secured by the trade debts owed to that company.

e. Bills payable have been drawn as a source of finance. At 30 June 2006, the bill payable had a term of 31 days with interest of 6.18% payable in arrears (2005: 5.95%)

f. Lease purchase borrowings are additionally secured by the leased asset.

g. The bank facilities of the parent entity and subsidiaries are subject to a stipulation that earnings before interest and tax (EBIT) shall not be less than the total interest payable by the economic entity. From September 2006 EBIT shall not be less that twice the total interest payable by the economic entity.

h. The bank has continued to provide facilities to the parent entity and subsidiaries after the expiry date of the facilities on 30 November 2005.

i. The $140,000 loan is secured by a floating charge over the assets of the economic entity, ranking after the bank.

22. PROVISIONS

	Employee entitlements $
Economic entity:	
Balance at the beginning of the year	**174,862**
Additional provisions	**232,799**
Amounts used	**(120,056)**
Carrying amount at the end of the year	**287,605**
Parent entity:	
Balance at the beginning of the year	120,245
Additional provisions	81,505
Amounts used	(6,484)
Carrying amount at the end of the year	195,266

Total Provisions	Economic 2006	Economic 2005	Parent 2006	Parent 2005
Current	**239,605**	174,862	**159,266**	120,245
Non-current	**48,000**	-	**36,000**	-
	287,605	174,862	**195,266**	120,245

a. Provision for Long-term Employee Benefits
A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $

23. ISSUED CAPITAL

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
23,790,562 ordinary shares fully paid (2005: 23,790,562)		**12,539,836**	12,539,836	**12,539,836**	12,539,836
Equity component of convertible notes		**1,632,789**	-	**1,632,789**	-
		14,172,625	12,539,836	**14,172,625**	12,539,836

Ordinary share capital

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Balance at the beginning of the financial year		**12,539,836**	10,811,895	**12,539,836**	10,811,895
11,895,281 shares issued at 15 cents each following a 1 for 1 rights issue on 7 October 2004.	23a	**-**	1,727,941	**-**	1,727,941
		12,539,836	12,539,836	**12,539,836**	12,539,836

a. Rights issue
The one-for-one renounceable rights issue at 15 cents per share as detailed in a Prospectus dated 2 September 2004, doubled the capital base to 23,790,562 shares and raised $1,784,292 (before issue costs of $56,351).

b. Shares disclosure
Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.
At the shareholders meetings each ordinary share is entitled to one vote when a poll is called. Otherwise, each shareholder has one vote on a show of hands.

Equity component of convertible notes

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Balance at the beginning of the financial year		**-**	-	**12,539,836**	-
16,800,000 convertible notes issued at 10 cents each with effect from 7 October 2005	23c	**1,632,789**	-	**1,632,789**	-
		1,632,789	-	**1,632,789**	-

c. Convertible notes.
At the Annual General Meeting on 28 November 2005, shareholders approved the roll-over of loans to the Company from parties related to Chiang Meng Heng and Christopher Elmore Campbell of $1,400,000 and $280,000 (respectively) into convertible notes. In accordance with AASB 132 the fair value of the liability component was calculated as $47,211 and the remaining $1,632,789 of the proceeds has been included in issued capital.
The terms of the convertible notes are:
Maturity: 31 October 2010. Interest Rate: 1% per annum. Conversion Price: 10 cents per ordinary share.

24. LEASING COMMITMENTS

Lease purchase commitments

Payable – minimum lease payments

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Not later than one year		**71,700**	86,360	**-**	-
Later than one year but not later than five years		**61,273**	98,258	**-**	-
Minimum lease payments		**132,973**	184,618	**-**	-
Less future finance charges		**14,204**	20,330	**-**	-
Present value of minimum lease payments	21a	**118,769**	164,288	**-**	-

24. LEASING COMMITMENTS (continued)

At the end of the lease periods the lessor's charges over the plant and equipment cease, leaving the assets the unencumbered property of the economic entity.

Operating Lease commitments
Non-cancellable operating leases contracted for but not capitalised in the financial statements:

	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
Not later than one year	**978,201**	905,682	**-**	652
Later than one year but not later than five years	**3,736,541**	873,089	**-**	-
Later than five years	**4,018,559**	-	**-**	-
	8,733,301	1,778,771	**-**	652

The economic entity leases property under operating leases expiring from 5½ months to 2 years. Lease payments comprise a base amount plus an incremental rental, based on either movements in the Consumer Price Index or minimum percentage increase criteria. On 28 August 2006 the Company signed a 10 year lease for premises at 505 George Street.

25. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent Liabilities

Guarantees

The following group companies have issued guarantees in respect of the parent entity as security for its bank facilities.

Academies Australasia Pty Limited
Academies Australasia Management Pty Limited
Clarendon Business College Pty Limited
Skilled Placements Pty Limited (formerly Multimedia Investments Pty Limited)
Premier Fasteners Pty Limited
Supreme Business College Pty Limited

The following group companies have issued guarantees in respect of Premier Fasteners Pty Limited as security for its bank facilities.

Garratt's Limited
Academies Australasia Pty Limited
Academies Australasia Management Pty Limited
Clarendon Business College Pty Limited
Skilled Placements Pty Limited (formerly Multimedia Investments Pty Limited)
Supreme Business College Pty Limited

25. CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

Future Income Tax Benefit

The economic entity has a future income tax benefit of $2,706,599 (see note 18) in respect of operating losses, capital losses and temporary differences that have not been recognised in these financial statements, as the recovery of the benefit is not considered probable. The benefit of this asset will only be realised if the conditions for deductibility set out in Note 1b occur.

Thanga Thangathurai Debt

In December 2003, the Company filed a claim in the Superior Court of California, County of Sonoma, USA, against Mary Lynn Thangathurai ('MLT') for US$1,900,000 plus costs, interest, attorney's fees, and other amounts. MLT is the surviving spouse of the late Thanga Thangathurai. The action is being brought against her pursuant to, among other laws, the California Probate Code that provides, inter alia, that upon the death of a married person, the surviving spouse is personally liable for the debts of the deceased person in relation to certain property.

The realisation of this benefit is dependent upon a successful outcome of the litigation exercise or, alternatively, a suitable settlement being agreed between the parties.

26. SEGMENT REPORTING

	FASTENERS		EDUCATION		CONSOLIDATED	
	2006	2005	2006	2005	2006	2005
	$	$	$	$	$	$
Primary reporting – Business segments						
Revenue						
External sales	**6,206,359**	6,324,873	**3,195,287**	2,239,986	**9,401,646**	8,564,859
Other revenue	**4,052**	4,698	**291,244**	19,494	**295,296**	24,192
	6,210,411	6,329,571	**3,486,531**	2,259,480	**9,696,942**	8,589,051
Unallocated revenue					**461**	1,705
Total revenue					**9,697,403**	8,590,756
Segment result	**194,590**	146,312	**53,313**	(601,045)	**247,903**	(485,141)
Unallocated expenses net of unallocated revenue					**(1,232,877)**	(1,527,222)
Profit (loss) before and after income tax					**(984,974)**	(2,012,363)
Segment assets	**5,916,339**	6,576,904	**2,271,463**	2,050,645	**8,187,802**	8,627,549
Unallocated					**245,727**	57,230
Total assets					**8,433,529**	8,684,779
Segment liabilities	**1,392,149**	1,553,571	**1,476,377**	988,399	**2,868,526**	2,541,970
Unallocated					**4,223,694**	5,449,317
Total liabilities					**7,092,220**	7,991,287
Acquisition of non-current segment assets	**-**	50,228	**45,054**	28,858	**45,054**	79,086
Depreciation and amortisation of segment assets	**195,657**	195,909	**77,964**	77,673	**273,621**	273,582

26. SEGMENT REPORTING

Primary reporting – Business segments

Major products/services of business segments:

Fasteners	Manufacture, import and sale of fasteners
Education	Training and education services

Secondary reporting – Geographical segments

The economic entity's business segments operate predominantly in Australia.

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments.

Segment assets and liabilities include all assets used in and all liabilities generated by the segments. Deferred tax assets and liabilities are not allocated to segments.

27. CASH FLOW INFORMATION

a. Reconciliation of cash flow from operations with profit (loss) after income tax

	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	$	$	$	$
Profit (loss) after income tax	**(984,972)**	(2,012,363)	**(119,354)**	(7,712,819)
Non-cash flows in profit (loss)				
Amortisation	**5,419**	5,429	**376**	564
Depreciation	**269,455**	270,016	**877**	1,299
Impairment loss	**-**	190,853	**-**	-
Loan to controlled entity forgiven	**-**	-	**-**	7,811,315
Net loss on disposal of plant and equipment	**49**	365	**-**	-
Write-downs to recoverable amounts	**4,565**	-	**-**	-
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	**(187,847)**	27,976	**(171,359)**	(848,835)
(Increase)/decrease in inventories	**850,883**	(541,448)	**-**	-
(Increase)/decrease in other current assets	**(303,663)**	22,544	**(3,409)**	43,574
Increase/(decrease) in Trade and other payables	**497,501**	962,837	**117,415**	88,194
Increase/(decrease) in provisions	**112,743**	13,553	**75,021**	395
Cash flow from operations	**264,133**	(1,060,238)	**(100,433)**	(616,313)

b. Non-cash investing activities

At the Annual General Meeting on 28 November 2005, shareholders approved the roll-over of loans totalling $1,680,000 into convertible notes. In accordance with AASB 132 the fair value of the liability component was calculated as $47,211. Accordingly, the remainder of the proceeds of $1,632,789 is included in equity.
The terms of the convertible notes are:
Maturity: 31 October 2010. Interest Rate: 1% per annum. Conversion Price: 10 cents per ordinary share.

27. CASH FLOW INFORMATION (continued)

During the financial year the economic entity acquired plant and equipment with an aggregate value of $29,400 (2005: $53,274) by means of lease purchase agreements. These acquisitions are not reflected in the cash flow statement.

28. EVENTS AFTER THE BALANCE SHEET DATE

There are no matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

The financial report was authorised for issue on 25 September 2006 by the board of directors.

29. RELATED PARTY TRANSACTIONS

Directors' transactions with the Company and the economic entity

In November 2005, shareholders approved the roll-over of the loans which were outstanding to the Company at 30 June 2005 from parties related to Chiang Meng Heng and Christopher Elmore Campbell of $1,400,000 and $280,000 (respectively) into convertible notes.

The terms of the convertible notes are:
Maturity: 31 October 2010. Interest Rate: 1% per annum. Conversion Price: 10 cents per ordinary share.

Apart from the convertible notes referred to above, in October 2005, Mr Campbell loaned $170,000 to the Company. This loan is unsecured and on arm's length terms. In addition, the Company has interest-free borrowings totalling $257,028 (2005: $245,392) from Mr Campbell and parties related to him.

	2006	2005
	$	$
Interest paid to Directors and Director related entities		
Convertible notes	**12,242**	-
Other	**47,861**	156,880
	60,103	156,880

Details of directors' remuneration are set out in the Directors' Report. Directors are reimbursed for expenses incurred by them on behalf of the economic entity.

Directors' and specified executives' relevant interests in shares

Details of Directors' relevant interests in shares are set out in the Directors' Report.

Other related party transactions

Transactions between the Company and controlled entities include loans, management fees and interest. Details of these transactions and the amounts owing at balance date are included in Notes 3, 4, 5, 12 and 20.

30. FINANCIAL INSTRUMENTS

a. **Financial Risk Management**

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, loans to and from subsidiaries, bills, leases and convertible notes.

The main purpose of non-derivative financial instruments is to raise finance for group operations.

i. Treasury Risk Management

Senior management meet on a regular basis to review currency and interest rate exposure and to evaluate treasury management strategies where relevant, in the context of the most recent economic conditions and forecasts.

ii. Financial Risks

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk.

Interest rate risk

Interest rate risk is managed with a mixture of fixed (short-term bills) and floating rate debt. At 30 June 2006 approximately 19% (2005 17%)of group debt was fixed. There is no set policy as to the mix between fixed and floating rate debt.

Foreign currency risk

The economic entity is exposed to foreign currency risk on its purchase of products and the sale of training and education courses to international students. The economic entity had not hedged foreign currency transactions as at 30 June 2006. Senior management continue to evaluate this risk on an ongoing basis.

Liquidity risk

Liquidity risk is managed by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained, where possible.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. In the education business, credit risk is minimised by, generally, collecting tuition fees in advance. In the fastening business credit risk is minimised by, whereever possible, only granting credit to customers with a good payment record.

Price risk

In respect of the fastening business, the price of wire is constantly monitored. The company does not currently hedge the prices at which it purchases wire.

b. **Financial Instruments**

i. **Interest Rate Risk**

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

30. FINANCIAL INSTRUMENTS (continued)

	Note	Weighted average interest rate	Floating interest rate	Fixed interest maturing in: 1 year or less	1 to 5 years	More than 5 years	Non-Interest bearing	Total
			$	$	$	$	$	$
2006								
Financial assets								
Cash and cash equivalents	11	3.15%	298,462	-	-	-	-	298,462
Trade and other receivables	12	-	-	-	-	-	1,517,330	1,517,330
			298,462	-	-	-	1,517,330	1,815,792
Financial liabilities								
Trade and other payables	20	-	-	-	-	-	2,858,037	2,858,037
Bank bills	21	5.94%	-	1,300,000	-	-	-	1,300,000
Bank loans	21	9.96%	1,913,570	-	-	-	-	1,913,570
Loans - Directors and Director related entities	21	8.40%	170,000	-	-	-	257,028	427,028
Loans - other	21	8.40%	140,000	-	-	-	-	140,000
Convertible notes	21	1.00%	-	-	47,211	-	-	47,211
Lease purchase agreements	24	8.40%	-	64,196	54,573	-	-	118,769
			2,223,570	1,364,196	101,784	-	3,115,065	6,804,615

	Note	Weighted average interest rate	Floating interest rate	Fixed interest maturing in: 1 year or less	1 to 5 years	More than 5 years	Non-Interest bearing	Total
			$	$	$	$	$	$
2005								
Financial assets								
Cash and cash equivalents	11	2.51%	46,362	-	-	-	-	46,362
Trade and other receivables	12	-	-	-	-	-	1,334,048	1,334,048
			46,362	-	-	-	1,334,048	1,380,410
Financial liabilities								
Trade and other payables	20	-	-	-	-	-	2,208,223	2,208,223
Bank bills	21	6.20%	-	1,300,000	-	-	-	1,300,000
Bank loans	21	8.96%	1,745,460	-	-	-	-	1,745,460
Loans - Directors and Director related entities	21	8.40%	-	-	1,680,000	-	245,392	1,925,392
Loans - other	21	8.40%	309,114	-	-	-	-	309,114
Lease purchase agreements	24	7.96%	-	75,730	88,558	-	-	164,288
			2,054,574	1,375,730	1,768,558	-	2,453,615	7,652,477

30. FINANCIAL INSTRUMENTS (continued)

ii. Net fair values of financial assets and liabilities

The carrying amounts of financial assets and liabilities approximate their net fair value.

iii. Amounts payable in foreign currencies

The Australian dollar equivalents of unhedged amounts payable or receivable in foreign currencies calculated at year end exchange rates, are as follows:

	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
United States Dollars	$	$	$	$
Amounts payable	**95,119**	211,166	**95,119**	144,598
Singapore Dollars				
Amounts payable	**6,242**	9,652	**6,242**	9,652
	101,361	220,818	**101,361**	154,250

31. CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and economic entity but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	AASB Standard Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date for the Group
2004–3	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2006	1 July 2006
	AASB 124: Related Party Disclosures	No change, no impact	1 January 2006	1 July 2006
2005–1	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005–5	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005–6	AASB 3: Business Combinations	No change, no impact	1 January 2006	1 July 2006
2005–9	AASB 132: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Disclosure and Presentation	No change, no impact	1 January 2006	1 July 2006
2005–10	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2007	1 July 2007
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2007	1 July 2007
	AASB 114: Segment Reporting	No change, no impact	1 January 2007	1 July 2007

31. CHANGE IN ACCOUNTING POLICY (continued)

AASB Amendment	AASB Standard Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date for the Group
	AASB 117: Leases	No change, no impact	1 January 2007	1 July 2007
	AASB 133: Earnings per share	No change, no impact	1 January 2007	1 July 2007
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1 January 2007	1 July 2007
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2007	1 July 2007
	AASB 4: Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
	AASB 1023: General Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
	AASB 1038: Life Insurance Contracts	No change, no impact	1 January 2007	1 July 2007
2006–1	AASB 121: The Effects of Changes in Foreign Exchange Rates	No change, no impact	1 January 2006	1 July 2006
New Standard	AASB 7: Financial Instruments: Disclosure	No change, no impact	1 January 2007	1 July 2007
New Standard	AASB 119: Employee Benefits: December 2004	No change, no impact	1 January 2006	1 July 2006

All other pending Standards issued between the previous financial report and the current reporting dates have no application to either the parent or economic entity.

AASB Amendment	AASB Standard Affected
2005–2	AASB 1023: General Insurance Contracts
2005–4	AASB 139: Financial Instruments: Recognition and Measurement
	AASB 132: Financial Instruments: Disclosure and Presentation
2005–9	AASB 4: Insurance Contracts
	AASB 1023: General Insurance Contracts
	AASB 139: Financial Instruments: Recognition and Measurement

32. COMPANY DETAILS

The registered office of all companies in the economic entity is:

Suite 1401, Level 14
33 Bligh Street
Sydney NSW 2000

The principal places of business are:

Garratt's Limited
Suite 1401, Level 14
33 Bligh Street
Sydney NSW 2000

Academies Australasia Group of Colleges

Suite 1401, Level 14
33 Bligh Street
Sydney NSW 2000

Levels 4 and 11
26 O'Connell Street
Sydney NSW 2000

Level 4
83 Castlereagh Street
Sydney NSW 2000

Premier Fasteners Pty Limited
1 & 3 Ladbroke Street
Milperra
NSW 2214

* * *

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. the financial statements and notes, set out on pages 12 to 48, are in accordance with the Corporations Act 2001 and:

   (i) comply with Accounting Standards and the Corporations Regulations 2001; and

   (ii) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the Company and economic entity.

2. the Chief Executive Officer and Chief Financial Officer have each declared that:

   (i) the financial records of the company for the financial year have been properly maintained in accordance with Section 286 of the Corporations Act 2001;

   (ii) the financial statements and notes for the financial year comply with the Accounting Standards; and

   (iii) the financial statements and notes for the financial year give a true and fair view.

3. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The company and the following wholly-owned subsidiaries have entered into a deed of cross guarantee under which the company and its subsidiaries guarantee the debts of each other.

Academies Australasia Pty Limited
Academies Australasia Management Pty Limited
Clarendon Business College Pty Limited
Premier Fasteners Pty Limited
Skilled Placements Pty Limited (formerly Multimedia Investments Pty Limited)
Supreme Business College Pty Limited

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

This declaration is made in accordance with a resolution of the Board of Directors.

Neville Cleary	Christopher Campbell
Director	Director

Dated this 27th day of September 2006

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF GARRATTS LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Garratts Ltd (the company) and the consolidated entity for the year ended 30 June 2006 as set out on pages 12 to 49. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

CALABRO PARTNERS
CHARTERED ACCOUNTANTS

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF GARRATTS LIMITED

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 11 of the financial report has not changed as at the date of providing our audit opinion.

Audit Opinion

In our opinion, the financial report of Garratts Limited is in accordance with:

a. the *Corporations Act 2001*, including:
   i. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b. other mandatory professional reporting requirements in Australia.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. With reference to note 1 (r), there is an inherent uncertainty as to whether Garratt's Limited will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Calabro Partners

CALABRO PARTNERS

GARTH BARRETT

28 September 2006
Level 5, 175 Eagle Street
Brisbane, Queensland 4000

GARRATT'S LIMITED
AND CONTROLLED ENTITIES
ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows.

SUBSTANTIAL HOLDERS

Ordinary Shares

The relevant interests of substantial shareholders as at 31 August 2006 were:

Shareholder	No. of Shares Held	%
Mr Chiang Meng Heng[a]	10,941,886	45.99
Eng Kim Low	3,779,126	15.88
Mr Christopher Elmore Campbell[b]	3,424,935	14.00
Jilcy Pty Ltd Jilcy Super Fund A/C	3,071,920	12.91
Vasek Fasteners Pty Ltd Premier Screw Super A/C	1,553,529	6.53
Junorma Holdings Pty Limited	1,252,242	5.26

[a] Includes 3,779,126 shares held by Eng Kim Low
[b] Includes 3,071,920 shares held by Jilcy Pty Ltd Jilcy Super Fund A/C and 349,015 shares held by Jilcy Pty Ltd Cazzylou Unit A/C

VOTING RIGHTS

Ordinary Shares

At 31 August 2006 there were 313 holders of the ordinary shares of the Company. The voting rights attaching to the ordinary shares, set out in Articles 69 and 70 of the Company's Articles of Association, are:

Article 69
"Subject to these Articles and any rights or restrictions for the time being attached to any class or classes of shares:
(a) at meetings of members or classes of members each member entitled to attend and vote may attend and vote in person or by proxy, or attorney and (where the member is a body corporate) by representative;
(b) on a show of hands, every Member present has 1 vote;
(c) on a poll, every Member present has:
(i) 1 vote for each fully paid share; ……."

Article 70
"Where more than 1 joint holder votes, the vote of the holder, whose name appears first in the register of members shall be accepted to the exclusion of the others."

GARRATT'S LIMITED
AND CONTROLLED ENTITIES
ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

20 LARGEST SHAREHOLDERS AS AT 31 AUGUST 2006

	Registered Name	No. Shares	%
1	Mr Chiang Meng Heng	7,162,760	30.11
2	Eng Kim Low	3,779,126	15.88
3	Jilcy Pty Ltd Jilcy Super Fund A/C	3,071,920	12.91
4	Vasek Fasteners Pty Ltd Premier Screw Super A/C	1,553,529	6.53
5	Junorma Holdings Pty Limited	888,951	3.74
6	Chio Tee Tan	600,000	2.52
7	Citicorp Nominees Pty Limited	500,000	2.10
8	Frank Kwong-Shing Wong	380,000	1.60
9	Jilcy Pty Ltd Cazzylou Unit A/C	349,015	1.47
10	Diacaf Holdings Pty Limited Duncan Superannuation A/C	339,748	1.43
11	Schlederer Nominees Pty Limited JLS Family A/C	305,519	1.28
12	Bowes & Brown Pty Ltd	300,000	1.26
13	Reach Out Pty Ltd	233,000	0.98
14	Mrs Gail Leslie Storey	207,200	0.87
15	Coolangatta Holdings Pty Limited Coolangatta Hlds S/Fund A/C	200,000	0.84
16	Mr Lim Sen Yap	166,362	0.70
17	Mrs Anthea Judith Drescher	153,515	0.65
18	Mr Bastine Augustine D'Cruz	150,000	0.63
19	Mr Robert Darius Fraser	147,435	0.62
20	Mr James Crosthwaite	128,800	0.54
		20,616,880	86.66

HOLDING RANGE (SHAREHOLDERS) AS AT 31 AUGUST 2006

Range	No. Holders	Total No. Shares	%
1 - 1,000	74	57,597	0.24
1,001 - 5,000	119	340,486	1.43
5,001 - 10,000	37	282,152	1.19
10,001 - 100,000	63	2,493,447	10.48
100,001 +	20	20,616,880	86.66
	313	23,790,562	100.00

The number of shareholders holding less than a marketable parcel as at 31 August 2006 was 196.

* * *

OFFICES AND OFFICERS

DIRECTORS	Neville Thomas Cleary	Chairman (Non-Executive)
	Christopher Elmore Campbell	Group Managing Director
	Chiang Meng Heng	Director (Non-Executive)

COMPANY SECRETARY Ian David Bloodworth

REGISTERED OFFICE

Garratt's Limited
Suite 1401, Level 14
33 Bligh Street
Sydney NSW 2000

Telephone: (02) 9224 5555
Facsimile: (02) 9224 5550

SHARE REGISTRAR

Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000

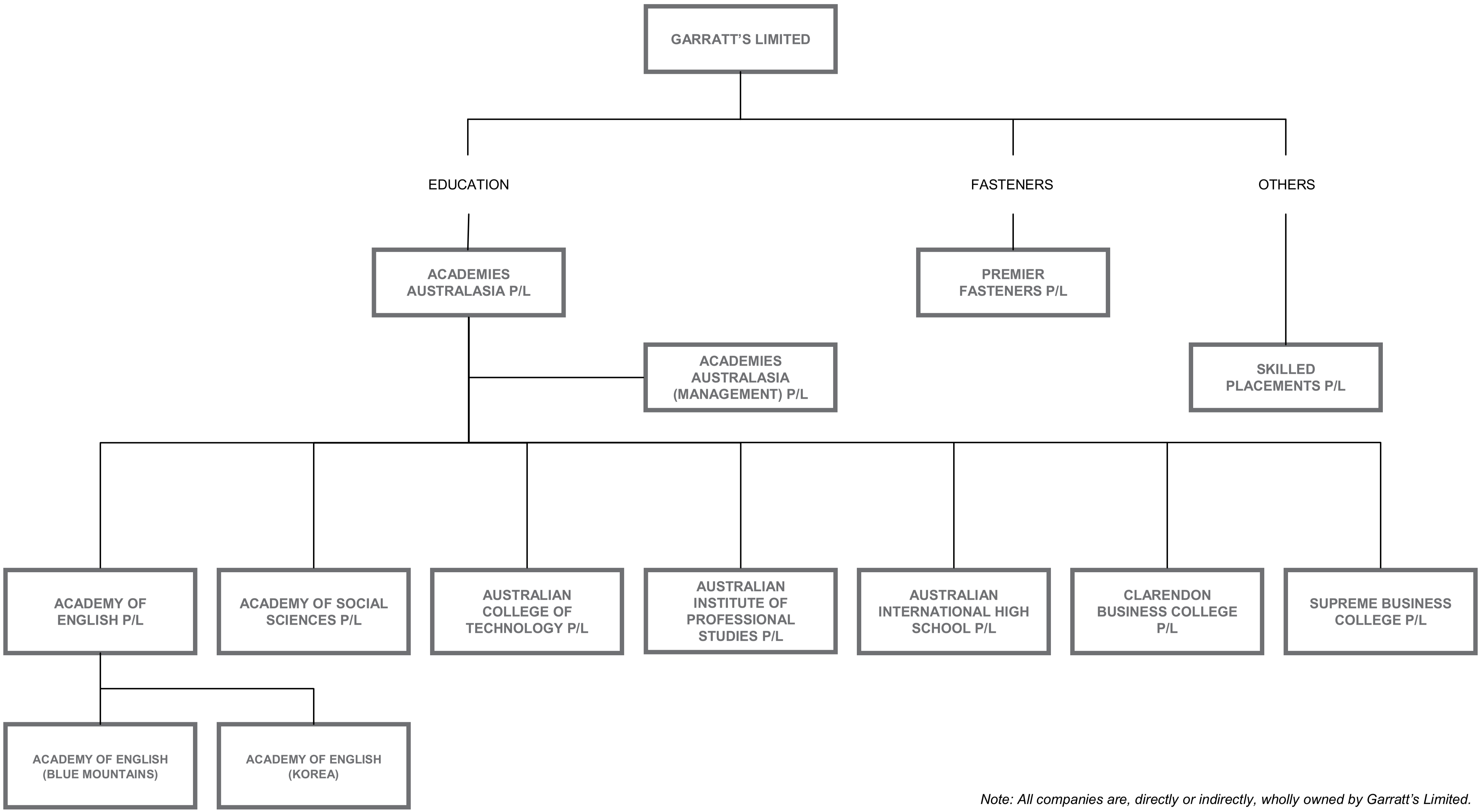
Telephone: (02) 8234 5000
Toll Free (Australia only) 1300 850 505
Facsimile: (02) 8234 5050

STOCK EXCHANGE

The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

ASX Code: GRT

GARRATT'S GROUP



Note: All companies are, directly or indirectly, wholly owned by Garratt's Limited.

9/06

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